

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 AS-01 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 PA-02 PRS-01 DODE-00 ACDA-10

IO-14 MMO-04 CU-04 OES-07 /133 W

-----171744Z 116804 /50

R 170807Z JUN 77

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 4558

UNCLAS SECTION 1 OF 2 SEOUL 5049/1

E.O. 11652: N/A

TAGS: EALR, MPOL, EPIN, KS

SUBJ: KOREA'S 1977 SUPPLEMENTAL BUDGET

REF SEOUL'S A-114 OF JUNE 13, 1977

SUMMARY: THE KOREAN GOVERNMENT HAS ANNOUNCED THAT A BALANCED SUPPLEMENTAL BUDGET OF 210.7 BILLION WON (\$435.3 MILLION) WILL BE SUBMITTED FOR APPROVAL TO THE NATIONAL ASSEMBLY WHEN IT CONVENES ITS SPECIAL SESSION JUNE 20. DEFENSE SPENDING WILL BE INCREASED 45 BILLION WON. (\$92.9 MILLION) ECONOMIC AND SOCIAL DEVELOPMENT EXPENDITURES, MOSTLY CAPITAL SUBSCRIPTIONS, WILL ALSO BE INCREASED SIGNIFICANTLY. END SUMMARY.

1. WHEN IT BEGINS ITS SPECIAL SESSION JUNE 20, THE NATIONAL ASSEMBLY WILL BE ASKED TO APPROVE A SUPPLEMENTAL BUDGET OF 210.7 BILLION WON. THE ADDITION INCREASES THE 1977 BUDGET BY 7.9 PERCENT TO 2,870 BILLION WON, 19.1 PERCENT OF ESTIMATED 1977 GNP. A BREAKDOWN OF THE REVISED BUDGET FOLLOWS:

W BILLION

EXPENDITURES

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SUPPLE- ORIG-

MENTAL PCT INAL PCT CHANGE PCT

GEN. ADM. 306.3 10.7 296.0 11.1 10.3 3.5

DEFENSE 970.4 33.8 925.4 34.8 45.0 4.9

SOCIAL DEV. 578.9 20.2 563.4 21.2 15.5 2.8

ECON. DEV 680.1 23.7 553.0 20.8 127.1 23.0

LOCAL GRANT	183.4	6.4	178.4	6.7	5.0	2.8
REPAYMENT OF						
DEBT & OTHERS	150.9	5.2	143.1	5.4	7.8	5.5
TOTAL	2,870.0	100.0	2,659.3	00.0	210.7	7.9

REVENUES W BILLION

	SUPPLE- MENTAL	PCT	ORIG- INAL	PCT	CHANGE	PCT
INTERNAL TAXES	1,709.7	59.6	1,637.6	61.6	72.1	4.4
DEFENSE TAX	309.2	10.8	279.3	10.5	29.8	10.7
CUSTOMS	338.2	11.8	338.2	12.1	-	-
MONOPOLY						
PROFITS	220.0	7.6	220.0	8.3	-	-
	68.3	2.4	56.2	2.7	12.1	21.5

TRUST FUNDS

AND FOREIGN

LOANS	149.2	5.1	128.0	4.8	19.2	15.0
SURPLUS	77.4	2.7	-	-	77.4	-
TOTAL	2,870.0	100.0	2,659.3	100.0	210.7	7.9

FISCAL RATIOS

1977

	1975	1976	ORIGINAL	ESTIMATE
GNP W BILLION	9,080.3	12,108.8	14,543.1	15,041.3
CURRENT				

GROWTH RATE	8.3	15.2	10.0	10.0
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PCT CONSTANT

PCT CURRENT	34.6	33.4	34.2	24.2
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GOVERNMENT EXPEND.	1,535.3	2,258.5	2,659.3	2,870.0
W BILLION CURRENT				

PCT INCREASE	51.4	45.7	17.7	27.1
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PCT GNP	16.9	18.7	18.3	19.1
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FISCAL RATIOS (CONT'D)

	1975	1976	1977
			ORIGINAL ESTIMATE

TAX BURDEN(PCT)	17.1	19.1	18.8	19.0
INTERNAL TAX	11.2	11.3	11.3	11.4
DEFENSE TAX	0.7	2.2	1.9	2.1
CUSTOMS & OTHERS	3.5	3.8	3.8	3.7
LOCAL TAX	1.7	1.8	1.8	1.8

(TAX ELASTICITY) (1.49) (1.47) (0.92) (10.97)
DEFENSE W BILLION 442.4 738.1 925.4 970.4
CURRENT

PCT BUDGET 28.8 32.9 34.8 33.8
PCT GNP 4.9 6.1 6.4 6.5

WITH THE ADDITIONAL 45 BILLION WON, DEFENSE EXPENDITURES
ARE 33.8 PERCENT OF THE BUDGET AND 6.5 PERCENT OF GNT,
THE HIGHEST LEVELS THEY HAVE BEEN. INCREASED DEFENSE
SPENDING HAS, IT PART, BEEN MADE POSSIBLE BY HIGHER THAN
ANTICIPATED DEFENSE TAX COLLECTIONS F 29.8 BILLION WON,
AND NECESSITZTED, IN PART, BY ACCELERATED FORCE
MODERNIZATION DUE TO THE WITHDRAWAL OF AMERICAN GROUND
FORCES FROM KOREA.
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IO-14 MMO-04 CU-04 OES-07 /133 W
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UNCLAS SECTION 2 OF 2 SEOUL 5049/2

2. MUCH OF THE SPENDING IN THE ECONOMIC AND SOCIAL
DEVELOPMENT ACCOUNTS ARE FOR PROJECTS OR INCREASES IN
CAPITAL OF GOVERNMENT ENTITIES. FOR EDUCATION, 11.8
BILLION WON WILL BE SPENT, MUCH OF IT FOR FACILITIES.
INCLUDED IS MONEY FOR PRIMARY, VOCATIONAL AND TECHNICAL
SCHOOL CONTRUCTION. INDUSTRY SUPPORT WILL COME BY WAY
OF CAPITAL INCREASES FOR KOREA ELECTIRIC COMPANY (KECO) 35
BILLION WON, KOREA DEVELOPMENT BANK (KDB) 25 BILLION
WON, AND EXPORT IMPORT BANK, 10 BILLION WON. IN ADDITION, THE
EXPORT INSURANCE FUND AND THE KOREA COAL CORPORATION WILL
EACH RECEIVE 2 BILLION WON AND INDUSTRIAL ESTATES 2.7
BILLION WON.

3. KECO WILL USE 25 BILLION WON FOR ITS CAPITAL STOCK REPURCHASE PROGRAM, THE REMAINING 10 BILLION WON IS FOR INCREASED CAPITAL. OVER THE NEXT FEW YEARS KECO WILL REPURCHASE ALL OF ITS CAPITAL STOCK HELD BY THE PUBLIC AT AN ESTIMATED COST OF 125 BILLION WON. (\$258.3 MILLION),

4. THE KDB CAPITAL INCREASE WILL BE USED PRIMARILY FOR LOANS TO THE HEAVY AND CHEMICAL INDUSTRIES SECTOR, PARTICULARLY PETROCHEMICAL PROJECTS.

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5. THE GOVERNMENT ALSO PLANS TO SPEND AN ADDITIONAL 6-7 BILLION WON TO EXPAND JUDICIAL FACILITIES THROUGHOUT THE COUNTRY. A PART OF THE REVENUE, 601 MILLION WON, WILL COME FROM INCREASED FINE COLLECTIONS. IN THE LAST SEVERAL MONTHS THERE HAS BEEN A CAMPAIGN THROUGHOUT KOREA TO ENFORCE TRAFFIC REGULATIONS WITH THE RESULT, THE GOVERNMENT REPORTS, IN SEOUL THE NUMBER OF CITATIONS ISSUED NOW TOTALS AN AVERAGE OF TWO FOR EACH CAR IN THE CITY. ALSO, FINES FOR VIOLATIONS HAVE BEEN RAISED AND MANY OFFENSES PREVIOUSLY SUBJECT TO JAIL TERMS NOW BRING ONLY FINES. PART OF THE REASON FOR THE LATTER IS THE OVERCROWDED CONDITIONS OF KOREAN JAILS. THE COURTS ARE SIMILARLY OVERCROWDED. THE CAPACITY OF BOTH WILL BE EXPANDED.

6. OF THE TOTAL REVENUE SURPLUS OF 127.4 BILLION WON, 1977 ECONOMIC PERFORMANCE HAS PROVIDED 49.4 BILLION WON AND, AS NOTED, THE DEFENSE TAX, WHICH IS A SURTAX, 29.8 BILLION WON. OF THE TOTAL SURPLUS, 77.4 BILLION WON WILL BE USED FOR INCREASED BUDGET EXPENDITURES, WHILE, IN A DEFLATIONARY MOVE, THE GOVERNMENT WILL REPAY 50 BILLION WON OF BORROWING FROM THE BANK OF KOREA WHICH PRESENTLY TOTAL 767.3 BILLION WON (606 BILLION WON IS FOR THE GRAIN MANAGEMENT FUND.)

7. AN INTERESTING NOTE FROM THE FISCAL RATIOS: FOR THE FIRST TIME TAX ELASTICITY (THE RATIO OF INCREMENTAL RISE IN TAXES TO INCREMENTAL RISE IN GNP) HAS FALLEN BELOW UNITY - HAS BECOME INELASTIC. THIS MEANS, OF COURSE, THAT TAX REVENUES WILL BE TOUGHER TO COME BY SINCE IT WILL TAKE INCREASING PORTIONS OF GNP TO COLLECT HIGHER TAX AMOUNTS.

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Message Attributes

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